

CITY OF EAU CLAIRE, WISCONSIN
MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the financial performance of the City of Eau Claire is intended to provide an overview of the City's financial activities for the fiscal year ended December 31, 2003. Readers are encouraged to consider the information presented here in conjunction with additional information as furnished in the letter of transmittal and the financial statements, which begin on page 29. This is the initial year that the financial statements for the City of Eau Claire have been prepared in the format prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

FINANCIAL HIGHLIGHTS

- The City of Eau Claire has total assets of \$369 million and liabilities of \$117 million, resulting in net assets of \$252 million at the end of 2003. Of the net assets, \$182 million represents the City's investment in capital assets, net of related debt, \$18 million is held for restricted purposes, and \$52 million is available to meet the City's ongoing obligations to its citizens and creditors.
- During 2003, the City of Eau Claire continued a proactive plan for the replacement of aging infrastructure, the upgrade of technology used in operations, and the improvement of utility services. The City invested more than \$17 million in upgrading infrastructure systems and other capital assets.
- Wisconsin statute restricts municipality general obligation debt to less than 5% of equalized property value. The City of Eau Claire maintained a level of remaining debt capacity of greater than 70%. In 2003, \$4.4 million in new debt was used to refund prior general obligation notes and bond issues.

OVERVIEW OF THE FINANCIAL STATEMENTS

This section serves as an introduction to the City of Eau Claire's basic financial statements. The basic financial statements for the City of Eau Claire are comprised of three components:

- government-wide financial statements,
- fund financial statements, and
- notes to the basic financial statements.

This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The two government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector business entities. The *Statement of Net Assets* presents information on all of the City of Eau Claire's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The *Statement of Activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The City's overall financial position improved from 2002 to 2003; the City's net assets increased by \$3.3 million with about two-thirds of the increase generated by the City's business-type activities, and in particular, by the Water and Sewer utilities. The government-wide financial statements can be found on pages 29 and 30 of this report.

Both of the government-wide financial statements distinguish those functions of the municipality that are principally supported by taxes and intergovernmental revenues, known as governmental activities, from other functions that are intended to recover all, or a significant portion, of their costs through user fees and services charges, called business-type activities. The governmental activities of the City of Eau Claire include general government, public safety, public works, health services, culture and recreation, development, and other miscellaneous activities. The business-type activities of the City include the water, sewer, stormwater, and parking utilities, public transit, the ice center, and the outdoor pool.

In addition to these various direct operations of the City, or primary government, the government-wide financial statements also include financial information related to legally distinct entities for which the City has financial responsibility and accountability, known as component units. These component units are the Housing Authority, Redevelopment Authority, the Downtown Business Improvement District, the West Grand Business Improvement District, and the Water Street Business Improvement District. These entities are described in Note III-K following the financial statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Eau Claire, like other governmental entities, uses fund accounting to ensure and demonstrate compliance with various finance-related legal requirements. Some funds are required by law, while others are established internally to maintain control over a particular activity. All of the funds of the City of Eau Claire can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide statements, governmental fund financial statements focus on near-term inflows and outflows of current spendable resources, as well as balances of spendable resources that can be converted to cash and balances available at the end of the fiscal year for future spending. Such information may be useful in evaluating a government's near-term financing requirements.

Governmental funds include the General, special revenue, capital projects, and debt service funds. Of these, the General fund and the Debt Service fund are shown as major funds and are presented in separate columns. Data from the other governmental funds are combined into a single column for aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report. Reconciliations follow the *Balance Sheet-Governmental Funds* and *Statement of Revenues, Expenditures, and Changes in Fund Balance*. The reconciliations show the adjustments that are needed to convert the governmental funds financial statements to the government-wide *Statement of Net Assets and Statement of Activities*.

Proprietary Funds

Proprietary funds maintained by the City of Eau Claire are of two different types: enterprise funds and internal service funds. Enterprise funds are used to report those functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for activities that provide supplies and services to the general public. Proprietary fund statements provide the same type of information as the government-wide financial statements, but in more detail. The City's fund financial statements present separate enterprise fund information for the Water, Sewer, and Stormwater utilities and the Transit fund; data from the other proprietary funds are combined into a single column for aggregated presentation. Individual fund data for each of these non-major funds is provided in the form of combining statements elsewhere in this report. The proprietary fund financial statements begin on page 37 of this report.

- Internal service funds are used to account for enterprise-like operations that provide services, on a user fee basis, primarily or exclusively to departmental customers within the governmental entity itself, rather than to external customers. The City of Eau Claire uses internal service funds to account for its risk management and central equipment functions. Because these services predominately benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements. Detail about each fund may be found in the supplementary information section beginning on page 137.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City of Eau Claire uses a fiduciary fund to account for taxes collected for the benefit of overlapping tax jurisdictions. The Tax Collections fiduciary fund is not reflected in the government-wide financial statements because the resources of the fund are not available to support the programs of the City of Eau Claire. The accounting for the Tax Collection fund is similar to that used for proprietary funds. The fiduciary fund financial statement can be found on page 44 of this report.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional detail that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found beginning on page 46 of this report.

Additional Supplementary Information

Following the basic government-wide and fund financial statements and accompanying notes, combining statements are included for the non-major governmental, enterprise, and internal service funds, along with component units. The last section of *The City of Eau Claire Comprehensive Annual Financial Report* presents statistical and historical reference data.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The *Statement of Net Assets* for the City of Eau Claire is summarized in the table below. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$252 million at the close of 2003. The majority of these net assets reflect the City's investment in capital assets, including land, land improvements, buildings, machinery and equipment, infrastructure, and construction in progress, net of depreciation. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

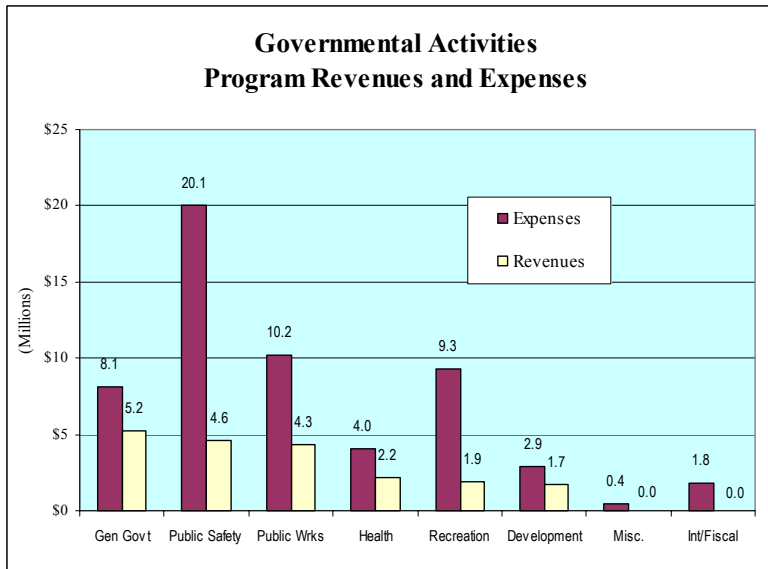
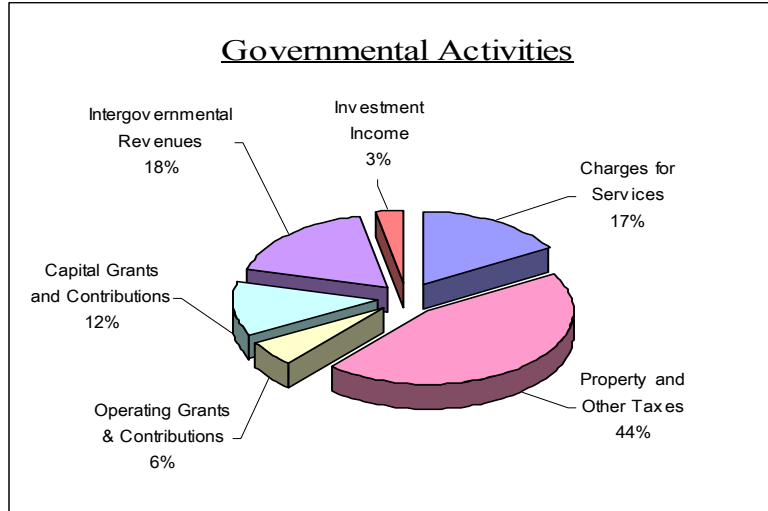
	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Current and Other Assets	\$ 109,683,247	\$ 18,804,564	\$ 128,487,811
Capital Assets (net)	<u>111,204,230</u>	<u>129,772,026</u>	<u>240,976,256</u>
Total Assets	<u>\$ 220,887,477</u>	<u>\$ 148,576,590</u>	<u>\$ 369,464,067</u>
Current Liabilities	\$ 29,398,494	\$ 1,791,011	\$ 31,189,505
Noncurrent Liabilities	<u>61,941,888</u>	<u>24,398,603</u>	<u>86,340,491</u>
Total Liabilities	<u>\$ 91,340,382</u>	<u>\$ 26,189,614</u>	<u>\$ 117,529,996</u>
Invested in Capital, Net of Debt	\$ 76,620,258	\$ 105,722,026	\$ 182,342,284
Restricted	14,619,800	3,332,207	17,952,007
Unrestricted	<u>38,307,037</u>	<u>13,332,743</u>	<u>51,639,780</u>
Total Net Assets	<u>\$ 129,547,095</u>	<u>\$ 122,386,976</u>	<u>\$ 251,934,071</u>
Total Net Assets as a % of Total Liabilities	142%	467%	214%
Unrestricted Net Assets as a % of Total Liabilities	42%	51%	44%

A relatively small portion of the City's net assets (7%) represents resources that are subject to other restrictions as to how they may be used. The remaining \$52 million of total net assets may be used to meet the City's ongoing obligations to its citizens and creditors. It is important to note that \$13 million, or about one-fourth, of these unrestricted net assets are related to the City's business-type activities. Consequently, they generally may not be used to fund governmental activities. At the end of 2003, the City is able to report positive balances in net assets for the governmental activities as well as business-type activities.

An examination of the *Statement of Activities* provides a concise picture of how the various activities of the City are funded. The following table summarizes the City's governmental and business-type activities.

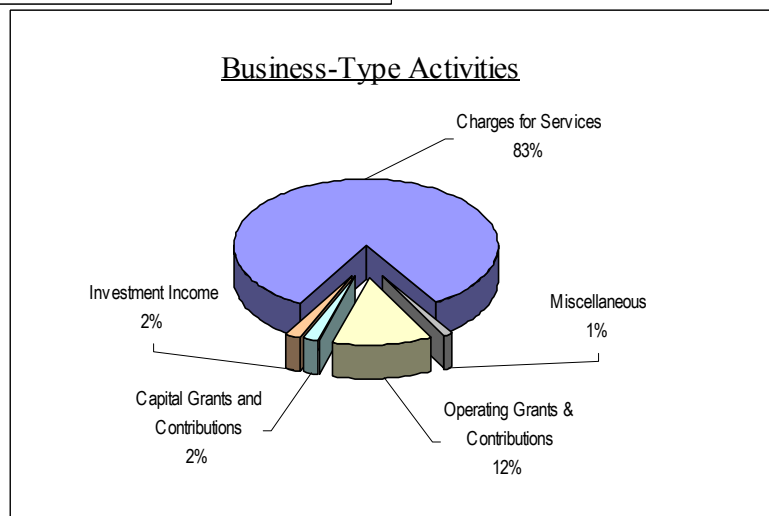
	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
Revenues			
Program revenues:			
Charges for services	\$ 9,719,770	\$ 15,950,592	\$ 25,670,362
Operating grants & contributions	3,407,353	2,360,794	5,768,147
Capital grants & contributions	6,855,043	375,331	7,230,374
General revenues:			
Property taxes	24,511,346	-	24,511,346
Other taxes	1,343,124	-	1,343,124
Intergovernmental revenues	10,392,649	-	10,392,649
Investment income	1,697,609	365,909	2,063,518
Miscellaneous	-	93,558	93,558
Total revenues	<u>57,926,894</u>	<u>19,146,184</u>	<u>77,073,078</u>
Expenses			
Program expenses:			
General government	8,099,537	-	8,099,537
Public safety	20,070,417	-	20,070,417
Public works	10,173,302	-	10,173,302
Health services	4,023,159	-	4,023,159
Culture and recreation	9,283,774	-	9,283,774
Development	2,931,989	-	2,931,989
Miscellaneous	421,123	-	421,123
Interest & fiscal charges	1,791,084	-	1,791,084
Water utility	-	5,010,412	5,010,412
Sewer utility	-	5,089,211	5,089,211
Storm water utility	-	1,628,456	1,628,456
Public transit	-	3,982,644	3,982,644
Parking utility	-	408,357	408,357
Hobbs ice center	-	503,345	503,345
Outdoor pool	-	367,367	367,367
Total expenses	<u>56,794,385</u>	<u>16,989,792</u>	<u>73,784,177</u>
Increase in net assets before transfers	1,132,509	2,156,392	3,288,901
Transfers	132,732	(132,732)	-
Change in net assets	1,265,241	2,023,660	3,288,901
Net assets - January 1, 2003	<u>128,281,854</u>	<u>120,363,316</u>	<u>248,645,170</u>
Net assets - December 31, 2003	<u>\$129,547,095</u>	<u>\$122,386,976</u>	<u>\$251,934,071</u>

The chart on the right illustrates how governmental activities are funded. Taxes, primarily real and personal property, but also room taxes and payments-in-lieu of taxes, provide about 44% of the revenue for governmental activities. State aids and other grants comprise another 36%, while charges for services and all other sources are equal to 20% of revenues.



Another way to analyze the data in the *Statement of Activities* is to compare expenses of a particular program with revenues generated. The graph on the left reflects this comparison for governmental activities.

Business-type activities depend on charges for services as their primary revenue sources. As indicated in the graph on the right, over 83% of revenues are generated from user charges.



FINANCIAL ANALYSIS OF THE CITY'S MAJOR FUNDS

Governmental Funds

The focus of the City's governmental funds is to provide information regarding near-term inflows, outflows, and spendable resources. Such information can be useful in assessing the City's financing requirements.

As of December 31, 2003, the City of Eau Claire's *Balance Sheet - Governmental Funds* reported combined ending fund balances of \$50.1 million, an increase of \$8.2 million over the previous year's ending balances. Nearly \$5.3 million of the increase is associated with TIF #8 and other TIF projects. Of the ending fund balances total, \$23.1 million is reserved for specific legal requirements and other commitments, leaving total unreserved governmental fund balances of \$27.0 million available for meeting future budget requirements. Of these unreserved balances, \$24.1 million has been segregated or otherwise designated for specific uses, leaving an unreserved, undesignated fund balance of \$2.9 million which is in the General fund.

The General fund is the primary operating fund used to account for the governmental operations of the City of Eau Claire. The largest revenue sources for the General fund are taxes and intergovernmental aids, together accounting for 82% of revenues. Public safety, public works, and culture and recreation are the primary operations of the General fund. Over 52% of the General fund expenditures of \$36.4 million are allocated to the public safety sector. Another 30% of the General fund costs are derived from the operations of public works and culture and recreation.

The General fund has a fund balance of \$15.9 million. Of this amount, \$6.3 million is reserved for loans made to the utilities, prepayments and notes receivable. Another \$6.7 million is designated for subsequent year expenditures and working capital. The undesignated General fund balance is \$2.9 million. The undesignated fund balance is available to be applied in a future year's budget to one-time capital projects or to reduce outstanding debt.

The Debt Service fund had a total fund balance of \$4.4 million. This balance primarily reflects the amounts reserved to pay debt service on special assessment bond issues and has accumulated from the prepayment of special assessments by property owners.

The Other Governmental Funds column in the balance sheet includes various special revenue, debt service, and capital projects funds used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The total accumulated fund balances of these funds increased by \$5.5 million during 2003. As indicated above, \$5.3 million of the \$5.5 million increase reflected the accumulation of resources needed to proceed with TIF #8 park and infrastructure improvements and other TIF capital projects.

Proprietary Funds

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in greater detail. The detail of the City's proprietary funds can be found from page 37 to page 41. The net assets of the enterprise-type proprietary funds at the end of 2003 totaled \$122 million, an increase of \$1.9 million from the previous year.

Some highlights:

- At the end of 2003, the Water and Sewer Utilities each maintained debt coverage ratios of over three times the annual debt service.
- The Stormwater Utility, in its first year as a business-type activity, realized a small profit to be applied to future best management practice issues and capital projects. Revenues for the utility are generated by billable Equivalent Runoff Units (ERU) on residential and commercial properties.
- The Public Transit fund is subsidized by federal and state operating assistance at approximately 60%. The balance is covered by local fares and General fund transfers to the service.

GENERAL FUND BUDGETARY HIGHLIGHTS

As shown in the *Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual for the General Fund* on page 36, the original 2003 General fund budget authorized expenditures and other financing uses of \$43,048,600, funded by anticipated revenues and other financing sources of \$41,369,000 and the application of \$1,679,600 of available reserves. From time to time during the year, the City Council approved adjustments to the budget, primarily for grants and donations. These changes are reflected in the Final Budget column.

The City ended the year with net favorable variances. Revenues and other financing sources exceeded the final budget by \$1,134,232, while expenditures and other financing uses were under budget by \$1,958,403. Major components of the positive revenue variance are property tax collections and the sale of City-owned assets. Tax collections exceeded the budget by \$457,833 and can be mainly attributed to taxes redistributed to all taxing entities, including the City, by the closure of Tax Incremental Financing District #4. Additionally, the City sold the Dells Dam to Xcel Energy for \$648,500, which accounts for a large portion of the variance reflected in sale of capital assets.

Several other revenue sources experienced significant variances. The steep decline in interest rates lowered investment income. The State payment for municipal services provided to state facilities was reduced by \$247,955. However, licenses, fines and charges for services exceeded budget estimates, reflecting higher levels of activity in such areas as parking enforcement, ambulance services and building permits.

A major component of the favorable expenditure variance can be attributed to positions held open during 2003 in anticipation of lay-offs in 2004. This, coupled with a mild winter season, allowed for significant savings in Public Works and other departments.

CAPITAL ASSETS AND DEBT

Capital Assets

In accordance with the implementation requirements of GASB No. 34, the City has recorded historical costs and depreciation expense associated with all of its capital assets, including infrastructure. As summarized in the table below, the City's reported investment in capital assets for governmental and business-type activities as of December 31, 2003 totaled over \$345 million. Nearly one-third of this total cost was related to governmental infrastructure, with the City's street network comprising the most significant component.

Total accumulated depreciation was calculated to be just over \$104 million, or approximately 30% of the historical asset cost. Net of accumulated depreciation, the City's investment in capital assets is more than \$240 million.

City of Eau Claire, Wisconsin Capital Assets, Net of Accumulated Depreciation December 31, 2003			
	Governmental Activities	Business-Type Activities	Total
Land	\$ 15,229,562	\$ 14,573,737	\$ 29,803,299
Land Improvements	2,265,578	-	2,265,578
Building and Improvements	18,820,256	6,652,244	25,472,500
Infrastructure	107,368,002	2,242,827	109,610,829
Machinery and Equipment	25,969,201	5,720,010	31,689,211
Water Utility	-	58,931,634	58,931,634
Sewer Utility	-	58,614,409	58,614,409
Stormwater Utility	-	21,763,776	21,763,776
Work in Progress	634,125	6,564,540	7,198,665
Subtotal	170,286,724	175,063,177	345,349,901
Less Accumulated Dep.	(59,082,494)	(45,291,151)	(104,373,645)
Total	\$ 111,204,230	\$ 129,772,026	\$ 240,976,256

Some of the most significant additions to the City's capital assets during 2003 included the following:

<u>Significant Additions to Capital Assets in 2003</u>	
Streets & Related Infrastructure	\$ 7,200,000
Stormwater Detention Basins	4,000,000
Water Mains and Services	2,200,000
Stormwater Mains	1,600,000
Dump Trucks for Central Maintenance	1,500,000
Sewer Mains	1,400,000
Total	<u><u>\$ 17,900,000</u></u>

Additional information about the City's capital assets can be found in Note III-D of this report.

Long-Term Debt

On December 31, 2003, the City of Eau Claire had \$69,791,010 of bond and long-term note principal outstanding, as summarized in the following table:

**City of Eau Claire, Wisconsin
Notes and Bonds Outstanding
December 31, 2003**

	Governmental Activities	Business-type Activities	Total
General Obligation Bonds & Notes	\$ 45,741,010	\$ 11,310,000	\$ 57,051,010
Revenue Bonds	-	12,740,000	12,740,000
Total	<u><u>\$ 45,741,010</u></u>	<u><u>\$ 24,050,000</u></u>	<u><u>\$ 69,791,010</u></u>

Under Wisconsin State Statute Section 67.03(1), the outstanding general obligation long-term debt of a municipality may not exceed 5% of the equalized property value of all taxable property within the jurisdiction. Applicable debt of the City totaled \$57,051,010, which, with amounts available for payment of principal, is less than thirty percent of the maximum legal limit.

During 2003, the City issued new debt for the following amounts and purposes:

**City of Eau Claire, Wisconsin
Long-term Debt Issued**

<u>Date</u>	<u>Type of Debt</u>	<u>Amount</u>
9/15/2003	General Obligation Corporate Purpose Bonds	\$9,870,000
9/15/2003	General Obligation Corporate Purpose Refunding Bonds	4,405,000
9/15/2003	Taxable General Obligation Corporate Purpose Bonds	900,000
9/15/2003	Waterworks System Mortgage Revenue Bonds	2,310,000
8/27/2003	State Trust Fund Loan	320,000
Total		<u>\$17,805,000</u>

The General Obligation Corporate Purpose Bonds were rated Aa2 by Moody's Investors Service and AA by Standard & Poor's Ratings Services. The Waterworks System Revenue Bonds were rated Aa3 by Moody's and AA by Standard and Poor's.

Additional information about the City's long-term debt can be found in Note III-F of this report.

CURRENTLY KNOWN FACTS

In 2003, the State of Wisconsin projected a reduction in the distribution of shared revenues for municipalities for the 2004 budget. Eau Claire's share of the reduction was \$1.1 million. Other state aids were also reduced. At the same time, Governor Doyle requested that local governments refrain from increasing the property tax rates to compensate for the loss of state revenues.

Besides the reduction in revenues, the City was also facing expenditure increases in wages and benefits, particularly health insurance, debt service, and subsidies for some of the enterprise funds like Public Transit, the Hobbs Ice Arena, and the Fairfax Pool. Overall, the City anticipated a budget deficit of \$2.9 million.

The City Manager prepared a Budget Blueprint to assist the City Council with resolving the deficit. Through the Manager's recommendations in the Budget Blueprint, the 2004 Council-approved tax levy increase was limited to the taxes generated by new growth and the closure of Tax Incremental Financing District #4, a combined total of \$972,700. The tax rate was not increased, and actually decreased slightly. Measures implemented to balance the 2004 budget included the elimination of 29.5 positions through attrition, an assumption of the health insurance deductible risk, and the implementation of new fees for services. The 2004 budget incorporates \$3.5 million from the 2003 net assets as a funding source in lieu of raising taxes.

The *2004 Program of Services*, the City's operating budget, has been implemented. Most of the 29.5 positions have been eliminated. Reserves have been allocated to permit the remaining positions to stay in place through 2005, if necessary, to avoid involuntary terminations. The City expects to meet its 2004 budget goals.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. As in the past, the City of Eau Claire provides the Comprehensive Annual Financial Report on our web page (ci.eau-claire.wi.us). If anyone has any questions about this report or needs additional financial information about the City of Eau Claire, please contact the Finance Department at 203 South Farwell Street, Eau Claire, Wisconsin, 54703. Finance Department staff can also be reached at (715) 839-6044.